

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Wakefield	County Gogebic
Audit Date June 30, 2004	Opinion Date February 7, 2005	Date Accountant Report Submitted to State: February 28, 2005 4-19-05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) David Traczyk CPA			
Street Address 327 Silver Street	City Hurley	State WI	ZIP 54534
Accountant Signature <i>David Traczyk, CPA</i>		Date 4-19-05	

CITY OF WAKEFIELD, MICHIGAN
AUDITED FINANCIAL STATEMENTS
June 30, 2004

TABLE OF CONTENTS

	Page
Independent Auditor's Report	3
Basic Financial Statements:	
Government - Wide Financial Statements:	
Statement of Net Assets	5
Statement of Activities	6
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	7
Statement of Revenues, Expenditures and Changes in Fund Balances	8
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	9
Proprietary Funds:	
Statement of Net Assets	10
Statement of Revenues, Expenses, and Changes in Fund Net Assets	11
Statement of Cash Flows	12
Notes to Basic Financial Statements	13
Combining and Individual Fund Statements and Schedules	
Combining Financial Statements - Non-Major:	
Governmental Funds:	
Combining Balance Sheet	31
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	32
Individual Fund Statements:	
Statement of Revenue - Budget and Actual - General Fund	33
Statement of Expenditures - Budget and Actual - General Fund	34
Statements of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual:	
Building Inspector Fund	35
Library Fund	36
Major Street Fund	37
Local Street Fund	38
Cemetery Fund	39
Garbage Fund	40
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	42

DAVID TRACZYK

Certified Public Accountant

327 SILVER STREET
HURLEY, MICHIGAN 54534-1255

Member: AICPA, WICPA

Licensed: MI, WI

Tel: 715-561-3299

Fax: 715-561-4099

INDEPENDENT AUDITOR'S REPORT

Mayor and Members of the Council
City of Wakefield, Michigan

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Wakefield Michigan, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Wakefield, Michigan management. My responsibility is to express an opinion on these statements based on my audit.

Except as indicated in the following paragraph, I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

Management has not maintained adequate records to support the amounts claimed as inventory in the general fund, electric fund, water fund, and sewer fund of \$36,268, \$54,974, \$25,831, and \$444, respectively. Nor have adequate records been maintained to verify the amount of \$243,795 claimed as general fund unallocated fringe benefit expenditures.

In my opinion, except for the effects, if any, of not being able to verify the inventory of the general fund, electric fund, water fund, sewer fund, or the unallocated fringe benefit expenditures of the general fund as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the general fund, electric fund, water fund, and sewer fund of the City of Wakefield, Michigan, as of June 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the major and local street funds, and the aggregate remaining fund information of the City of Wakefield, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as of June 30, 2004.

The City of Wakefield, Michigan, has not presented management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

My audit was conducted for the purpose of forming an opinion on the financial statements of the City of Wakefield, Michigan, taken as a whole. The combining and individual fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the City of Wakefield, Michigan. Such information has been subjected to auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, I have also issued my report dated February 7, 2005, on my consideration of City of Wakefield, Michigan internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

February 7, 2005

CITY OF WAKEFIELD, MICHIGAN
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year ended June 30, 2004

	Business type Activities - Enterprise Funds				Governmental Activities - Internal Service Fund
	Electric	Water	Sewer	Total	
Operating Revenues:					
Charges for services	\$ 877,387	\$ 185,294	\$ 352,707	\$ 1,415,388	\$ -
Rentals	5,031	3,750	-	8,781	71,772
Total Operating Revenue	882,418	189,044	352,707	1,424,169	71,772
Operating Expenses:					
Operations	188,099	184,923	82,197	455,219	92,307
Administration	17,302	15,862	2,899	36,063	-
Electric power purchased	525,119	-	-	525,119	-
Depreciation	35,256	40,805	125,412	201,473	62,708
Total Operating Expenses	765,776	241,590	210,508	1,217,874	155,015
Operating Income (Loss)	116,642	(52,546)	142,199	206,295	(83,243)
Non-operating revenue (expenses):					
Interest income	6,285	1,527	9,287	17,099	-
Interest expense	-	-	(208,524)	(208,524)	-
Total non-operating revenues (expenses)	6,285	1,527	(199,237)	(191,425)	-
Net Income Before Contributions and Transfers	122,927	(51,019)	(57,038)	14,870	(83,243)
Capital contributions	-	-	-	-	-
Operating transfers:					
Transfers in	-	60,000	-	60,000	-
Transfers (out)	(17,169)	(1,000)	-	(18,169)	-
Net transfers	(17,169)	59,000	-	41,831	-
Change in Net Assets	105,758	7,981	(57,038)	56,701	(83,243)
Net Assets at Beginning of Year	894,031	1,020,706	6,575,313	8,490,050	400,275
Net Assets at End of Year	\$ 999,789	\$ 1,028,687	\$ 6,518,275	\$ 8,546,751	\$ 317,032

See accompanying notes to basic financial statements.

CITY OF WAKEFIELD, MICHIGAN
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2004

	Business type Activities - Enterprise Funds				
	Electric	Water	Sewer	Total	Governmental Activities - Internal Service Fund
ASSETS					
CURRENT ASSETS:					
Cash	\$ 419,443	\$ 56,900	\$ 8,053	\$ 484,396	\$ -
Accounts receivable	64,378	16,782	34,643	115,803	-
Due from other funds	10,412	73,346	-	83,758	65,736
Inventory	54,974	25,831	444	81,249	-
Total Current Assets	549,207	172,859	43,140	765,206	65,736
RESTRICTED ASSETS:					
Cash	-	-	401,214	401,214	-
Total Restricted Assets	-	-	401,214	401,214	-
NONCURRENT ASSETS:					
Property, plant, and equipment	1,175,200	1,360,156	11,364,313	13,899,669	1,442,266
Accumulated depreciation	(608,300)	(471,702)	(677,609)	(1,757,611)	(1,124,033)
Total Noncurrent Assets	566,900	888,454	10,686,704	12,142,058	318,233
Total Assets	1,116,107	1,061,313	11,131,058	13,308,478	383,969
LIABILITIES					
CURRENT LIABILITIES:					
Vouchers payable	45,751	7,527	2,888	56,166	6,190
Accrued interest	-	-	16,951	16,951	-
Due to other funds	49,971	15,469	9,944	75,384	60,747
Current portion of bonds	-	-	53,000	53,000	-
Total Current Liabilities	95,722	22,996	82,783	201,501	66,937
NONCURRENT LIABILITIES:					
Meter deposits	20,596	9,630	-	30,226	-
Revenue bonds payable	-	-	4,530,000	4,530,000	-
Total Noncurrent Liabilities	20,596	9,630	4,530,000	4,560,226	-
Total Liabilities	116,318	32,626	4,612,783	4,761,727	66,937
NET ASSETS					
Investments in capital assets, net of related debt	566,900	888,454	6,103,704	7,559,058	318,233
Restricted for debt service	-	-	343,937	343,937	-
Restricted for capital projects	-	-	57,277	57,277	-
Unrestricted	432,889	140,233	13,357	586,479	(1,201)
Total Net Assets	\$ 999,789	\$ 1,028,687	\$ 6,518,275	\$ 8,546,751	\$ 317,032

See accompanying notes to basic financial statements.

CITY OF WAKEFIELD, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
Year ended June 30, 2004

	<u>Budgeted Amounts</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Local Sources:				
Property taxes	\$ 328,867	\$ 328,867	\$ 327,866	\$ (1,001)
Rentals	9,650	9,650	4,985	(4,665)
Charges for services	28,200	28,200	25,194	(3,006)
Interest	3,000	3,000	5,381	2,381
Other	51,450	64,111	39,436	(24,675)
Intermediate sources	8,000	8,000	8,148	148
State sources	327,709	370,293	365,351	(4,942)
Federal sources	-	-	76,370	76,370
	<u>756,876</u>	<u>812,121</u>	<u>852,731</u>	<u>40,610</u>
Expenditures:				
General Government	454,558	475,991	577,788	(101,797)
Public safety	168,741	168,741	170,755	(2,014)
Highways & streets	22,000	22,000	25,591	(3,591)
Public Works	66,700	97,700	101,250	(3,550)
Parks and recreation	54,500	122,045	110,293	11,752
	<u>766,499</u>	<u>886,477</u>	<u>985,677</u>	<u>(99,200)</u>
Excess of Revenues over (under) Expenditures	(9,623)	(74,356)	(132,946)	(58,590)
Other Financing Sources (Uses):				
Operating transfers in	36,338	36,338	18,169	(18,169)
Operating transfers (out)	(50,475)	(110,475)	(99,000)	11,475
	<u>(14,137)</u>	<u>(74,137)</u>	<u>(80,831)</u>	<u>(6,694)</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other (Uses)	(23,760)	(148,493)	(213,777)	(65,284)
Fund balance at beginning of year	<u>433,043</u>	<u>433,043</u>	<u>433,043</u>	<u>-</u>
Fund balance at end of year	<u>\$ 409,283</u>	<u>\$ 284,550</u>	<u>\$ 219,266</u>	<u>\$ (65,284)</u>

See accompanying notes to basic financial statements.

CITY OF WAKEFIELD, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
Year ended June 30, 2004

	General	Major Street	Local Street	Other Governmental Funds	Total Governmental Funds
Revenues:					
Local Sources:					
Property taxes	\$ 327,866	\$ -	\$ -	\$ -	\$ 327,866
Rentals	4,985	-	-	-	4,985
Charges for services	25,194	704	544	136,098	162,540
Interest	5,381	3,241	832	1,277	10,731
Other	39,436	-	-	1,519	40,955
Intermediate sources	8,148	-	-	21,887	30,035
State sources	365,351	263,778	89,358	1,385	719,872
Federal sources	76,370	81,851	147,489	-	305,710
	852,731	349,574	238,223	162,166	1,602,694
Expenditures:					
General Government	577,788	-	-	-	577,788
Public safety	170,755	-	-	-	170,755
Highways & streets	25,591	302,552	315,345	-	643,488
Public works	101,250	-	-	-	101,250
Community services	-	-	-	213,012	213,012
Parks and recreation	110,293	-	-	-	110,293
	985,677	302,552	315,345	213,012	1,816,586
Excess of Revenues over (under) Expenditures	(132,946)	47,022	(77,122)	(50,846)	(213,892)
Other Financing Sources (Uses):					
Transfers in	18,169	-	53,519	39,000	110,688
Transfers (out)	(99,000)	(53,519)	-	-	(152,519)
	(80,831)	(53,519)	53,519	39,000	(41,831)
Net Change in Fund Balances	(213,777)	(6,497)	(23,603)	(11,846)	(255,723)
Fund balance at beginning of year	433,043	221,889	149,843	16,244	821,019
Fund balance at end of year	\$ 219,266	\$ 215,392	\$ 126,240	\$ 4,398	\$ 565,296

See accompanying notes to basic financial statements.

Continued

Reconciliation of the change in fund balances - total governmental funds to the change in net assets of governmental activities:

Net change in fund balances - total governmental funds	\$	(255,723)
--	----	-----------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital asset purchases capitalized	-	
Depreciation expense	<u>(49,863)</u>	(49,863)

Internal service fund expenses in excess of costs allocated to individual funds:

Total expenses	155,015	
Allocated expenses	<u>71,772</u>	(83,243)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Accrued compensated absences	<u>(2,014)</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (390,843)</u></u>

CITY OF WAKEFIELD, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

	General	Major Street	Local Street	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 78,965	\$ 216,743	\$ 127,965	\$ 49,583	\$ 473,256
Accounts receivable	4,090	-	-	11,776	15,866
Taxes receivable	69,460	-	-	853	70,313
Due from State of Michigan	110,590	-	-	-	110,590
Due from other funds	136,851	-	-	33,544	170,395
Deferred charges	37,086	-	-	-	37,086
Inventory	36,268	-	-	-	36,268
Restricted cash	33,774	-	-	-	33,774
Total Assets	\$ 507,084	\$ 216,743	\$ 127,965	\$ 95,756	\$ 947,548
LIABILITIES					
Vouchers payable	\$ 108,368	\$ 1,351	\$ 1,725	\$ 11,887	\$ 123,331
Due to other funds	104,287	-	-	79,471	183,758
Due to other taxing agencies	75,163	-	-	-	75,163
Total Liabilities	287,818	1,351	1,725	91,358	382,252
FUND BALANCES					
Reserved for capital expenditures	33,774	-	-	-	33,774
Unreserved	185,492	215,392	126,240	4,398	531,522
Total Fund Balances	219,266	215,392	126,240	4,398	565,296
Total Liabilities and Fund Balances	\$ 507,084	\$ 216,743	\$ 127,965	\$ 95,756	

Amounts reported for governmental activities in the Statemet of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$2,377,377. 1,366,846

Internal service funds are used by management to charge the cost of certain activities, such as fleet management to individual funds. The assets and liabilities of the Internal Service Fund, (net of capital assets) consist of:

Current assets	\$ 65,736	
Current liabilities	\$ 66,937	(1,201)

Long term liabilities are not due and payable in the current period and therefore are not reported in the funds:

Accrued compensated absences	(151,266)
	<u>\$ 1,779,675</u>

See accompanying notes to basic financial statements.

CITY OF WAKEFIELD, MICHIGAN
STATEMENT OF ACTIVITIES
Year ended June 30, 2004

Functions/Programs	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions		
Governmental Activities:					
General government	\$ 590,378	\$ 4,985	\$ 381,123	\$ -	\$ (204,270)
Public safety	190,013	-	-	-	(190,013)
Highways and streets	720,554	1,248	582,476	-	(136,830)
Public works	106,390	-	-	-	(106,390)
Community services	223,078	136,098	23,272	-	(63,708)
Parks and recreation	121,293	25,194	68,746	-	(27,353)
Total Governmental Activities	1,951,706	167,525	1,055,617	-	(728,564)
Business-type Activities:					
Electric	765,776	882,418	-	-	116,642
Water	241,590	189,044	-	-	(52,546)
Sewer	419,032	352,707	-	-	(66,325)
Total Business-type Activities	1,426,398	1,424,169	-	-	(2,229)
Total	<u>\$ 3,378,104</u>	<u>\$ 1,591,694</u>	<u>\$ 1,055,617</u>	<u>\$ -</u>	<u>\$ (730,793)</u>

Changes in Net Assets

	Governmental Activities	Business type Activities	Total
Net (Expense) Revenue	\$ (728,564)	\$ (2,229)	\$ (730,793)
General Revenues:			
Property taxes	327,866	-	327,866
Investment income	10,731	17,099	27,830
Miscellaneous	40,955	-	40,955
Transfers	(41,831)	41,831	-
Total General Revenues and Transfers	337,721	58,930	396,651
Changes in Net Assets	(390,843)	56,701	(334,142)
Net Assets at Beginning of Year	2,170,518	8,490,050	10,660,568
Net Assets at End of Year	<u>\$ 1,779,675</u>	<u>\$ 8,546,751</u>	<u>\$ 10,326,426</u>

See accompanying notes to basic financial statements.

CITY OF WAKEFIELD, MICHIGAN
STATEMENT OF NET ASSETS
June 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	\$ 473,256	\$ 484,396	\$ 957,652
Accounts receivable	15,866	115,803	131,669
Taxes receivable	70,313	-	70,313
Due from State of Michigan	110,590	-	110,590
Internal balances	(8,374)	8,374	-
Deferred charges	37,086	-	37,086
Inventory	36,268	81,249	117,517
Restricted cash	33,774	401,214	434,988
Capital assets	3,744,223	13,899,669	17,643,892
Accumulated depreciation	<u>(2,377,377)</u>	<u>(1,757,611)</u>	<u>(4,134,988)</u>
Total Assets	2,135,625	13,233,094	15,368,719
LIABILITIES			
Vouchers payable	129,521	56,166	185,687
Accrued interest	-	16,951	16,951
Due to other taxing agencies	75,163	-	75,163
Meter deposits	-	30,226	30,226
Revenue bonds payable	-	4,583,000	4,583,000
Accrued compensated absences	<u>151,266</u>	<u>-</u>	<u>151,266</u>
Total Liabilities	<u>355,950</u>	<u>4,686,343</u>	<u>5,042,293</u>
NET ASSETS			
Investments in capital assets, net of related debt	1,366,846	7,559,058	8,925,904
Restricted for debt service	-	343,937	343,937
Restricted for capital projects	33,774	57,277	91,051
Unrestricted	<u>379,055</u>	<u>586,479</u>	<u>965,534</u>
Total Net Assets	<u>\$ 1,779,675</u>	<u>\$ 8,546,751</u>	<u>\$ 10,326,426</u>

See accompanying notes to basic financial statements.

CITY OF WAKEFIELD, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year ended June 30, 2004

	<u>Business type Activities - Enterprise Funds</u>				Governmental Activities - Internal Service Fund
	<u>Electric</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 892,355	\$ 188,538	\$ 357,896	\$ 1,438,789	\$ -
Payments to suppliers	(594,403)	(131,939)	(56,444)	(782,786)	(53,675)
Payments to employees	(142,723)	(68,200)	(27,303)	(238,226)	-
Receipts of meter deposits	-	-	-	-	-
Refunds of meter deposits	(243)	(62)	-	(305)	-
Internal activity - payment from (to) other funds	37,811	(74,459)	(507)	(37,155)	75,752
Net Cash Provided by Operating Activities	192,797	(86,122)	273,642	380,317	22,077
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers from (to) other funds	(17,169)	59,000	-	41,831	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchase of capital assets	(72,588)	-	(31,360)	(103,948)	(22,077)
Principal paid on capital debt	-	-	(51,000)	(51,000)	-
Interest paid on capital debt	-	-	(208,712)	(208,712)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(72,588)	-	(291,072)	(363,660)	(22,077)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of investments	110,754	-	53,002	163,756	-
Interest income	6,285	1,527	9,287	17,099	-
Net Cash Provided (Used) by Investing Activities	117,039	1,527	62,289	180,855	-
Net Increase (Decrease) in Cash and Cash Equivalents	220,079	(25,595)	44,859	239,343	-
Balances - Beginning of Year	199,364	82,495	364,408	646,267	-
Balances - End of Year	<u>\$ 419,443</u>	<u>\$ 56,900</u>	<u>\$ 409,267</u>	<u>\$ 885,610</u>	<u>\$ -</u>
Cash, including time deposits	\$ 419,443	\$ 56,900	\$ 8,053	\$ 484,396	\$ -
Restricted cash, including time deposits	-	-	401,214	401,214	-
Total Cash and Cash Equivalents, End of Year	<u>\$ 419,443</u>	<u>\$ 56,900</u>	<u>\$ 409,267</u>	<u>\$ 885,610</u>	<u>\$ -</u>

See accompanying notes to basic financial statements.

Continued

RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED (USED) BY OPERATING ACTIVITIES

Operating income (loss)	\$ 116,642	\$ (52,546)	\$ 142,199	\$ 206,295	\$ (83,243)
Adjustment to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation	35,256	40,804	125,412	201,472	62,708
Change in assets and liabilities:					
Receivables	9,937	(506)	5,189	14,620	-
Due from other funds	(1,265)	(70,718)	-	(71,983)	3,980
Inventory	(5,646)	923	(444)	(5,167)	-
Vouchers payable	(960)	(276)	1,793	557	3,733
Due to other funds	39,076	(3,741)	(507)	34,828	34,899
Meter deposits	(243)	(62)	-	(305)	-
Net Cash Provided by Operating Activities	<u>\$ 192,797</u>	<u>\$ (86,122)</u>	<u>\$ 273,642</u>	<u>\$ 380,317</u>	<u>\$ 22,077</u>

Noncash investing, capital and financing activities:
None

CITY OF WAKEFIELD, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL STATEMENT

The City of Wakefield, Michigan (the "City") operates under a Council – Manager form of government as authorized by its charter.

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the City the option of electing to apply FASB pronouncements issued after November 30, 1989. The City has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note. For the fiscal year ended June 30, 2004, the City implemented the new financial reporting requirements of GASB Statement Nos. 33 and 34. As a result, an entirely new financial presentation format has been implemented.

REPORTING ENTITY

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity", these financial statements present the Local Unit (primary government) and its component units. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based on this criteria, the City has no component units.

BASIS OF PRESENTATION

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes. Intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is place on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

NOTES TO FINANCIAL STATEMENTS (continued)

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

Proprietary Funds

Enterprise Funds

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Internal Service Fund

The City's internal service fund is used to account for the financing of fleet management services. These services are provided to the various funds of the City on a cost reimbursement basis.

NOTES TO FINANCIAL STATEMENTS (continued)

Major and Nonmajor Funds

The governmental and enterprise funds of the City are further classified as major and nonmajor funds as follows:

<u>Fund</u>	<u>Brief Description</u>
<u>MAJOR FUNDS</u>	
1. General	See above for description.
Special Revenue:	
2. Major Street	Account for revenues and expenditures of major street system.
3. Local Street	Account for revenues and expenditures of local street system.
Enterprise:	
4. Electric	Account for revenues and expenses of providing electric service to the public.
5. Water	Account for revenues and expenses of providing water service to the public.
6. Sewer	Account for revenues and expenses of providing sewer service to the public.
<u>NONMAJOR FUNDS</u>	
Special Revenue:	
7. Building Inspector	Account for revenues and expenditures of building inspection services.
8. Library	Account for revenues and expenditures of operating the library.
9. Cemetery	Account for revenues and expenditures of operating the cemetery.
10. Garbage	Account for revenues and expenditures of providing garbage services to the public.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

NOTES TO FINANCIAL STATEMENTS (continued)

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

For the purpose of the Statement of Net Assets, “cash, including time deposits” includes all demand, savings accounts, and certificates of deposits of the City. For the purpose of the proprietary fund Statement of Cash Flows, “cash and cash equivalents” include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as “due to and from other funds.” Short-term interfund loans are reported as “interfund receivables and payables.” Long-term interfund loans (noncurrent portion) are reported as “advances from and to other funds.” Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note F for details of interfund transactions, including receivables and payables at year-end.

NOTES TO FINANCIAL STATEMENTS (continued)

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include sales and use taxes. Business-type activities report utilities earnings as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax and grants and other similar intergovernmental revenues since they are usually both measurable and available. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable compose the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Inventories

The inventories of the City's general fund and enterprise funds consist of supplies and are recorded at the lower of cost or estimated value.

Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

-Buildings	25-30 years
-Improvements	10-50 years
-Machinery and Equipment	03-20 years
-Utility System	25-50 years
-Infrastructure	25-50 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

NOTES TO FINANCIAL STATEMENTS (continued)

Restricted Assets

Restricted assets include cash and investments that are legally restricted as to their use. The primary restricted assets are related to cash accounts established to be used for capital projects and debt retirement.

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

Compensated Absences

The City's policies regarding vacation time and sick leave permit employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term in the government-wide statements. In the fund financial statements, the liability is reported as it is incurred.

Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets—All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Statement

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements. See Note E for additional disclosures.

REVENUES, EXPENDITURES, AND EXPENSES

Property Tax

Property tax revenue should be recognized in accordance with MCGAA Statement 3. Properties are assessed and lienied as of December 31 and their related property taxes are billed on December 1 or July 1 of the following year. These taxes are due on February 14, or August 31 with the final collection date of February 28 before they are added to the county delinquent tax rolls.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods, and /or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Expenditures/Expenses

In government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds--By Character:

Current (further classified by function)
Debt Service
Capital Outlay

Proprietary Fund--By Operating and Nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

BUDETARY CONTROL

The City follows the following procedures in establishing budgets as reflected in the financial statements:

1. Prior to June 1st, the City Manager submits a proposed budget to the Council with covers all funds operated by the City commencing the following July 1st, the proposed expenditures and the means of financing them.
2. At least one public hearing is conducted by the City to obtain taxpayer comments and review the proposed budget in detail.
3. In June, the budget is legally enacted through passage of an ordinance.
4. Any revisions that alter any item of the budget are approved by the City Council.
5. Formal budgetary integration is employed as a management control device during the year.
6. Budgets are adopted on a basis consistent with Generally Accepted Accounting Principles.

Presented budgeted amounts presented are as originally adopted on June 9, 2003, or as amended by action of the Council.

NOTES TO FINANCIAL STATEMENTS (continued)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B – COMPLIANCE

The City's GARBAGE fund ended the year with an accumulated fund deficit of \$7,601. The City intends to eliminate this deficit by an operating transfer of funds from the general fund.

NOTE C - BALANCE SHEET--CASH AND INVESTMENTS

Deposits are carried at cost. Deposits are in several financial institutions in the name of the Local Unit Treasurer. Michigan Compiled Laws, Section 129.91, authorizes the Local Unit to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations. Investments can also be made in bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States government or Federal agency obligation repurchase agreements; bankers' acceptance of the United States banks; commercial paper rated within the three highest classifications by not less than two standard ratings services which mature not more than 270 days after the date of purchase and which involve no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The Local Unit's deposits are in accordance with statutory authority.

The Governmental Accounting Standards Board (GASB) Statement No. 3 risk disclosure for deposits at year-end are as follows:

Bank Balance	
Deposits	Total
Insured (FDIC)	\$ 200,000
Uninsured	1,429,311
	<u>\$ 1,629,311</u>

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE D - ALLOWANCE FOR RECEIVABLES

The City records the receivables net of the allowance for uncollectibles. The amounts reflected as of June 30, 2004, include the following amounts with allowances for uncollectibles:

<u>Fund</u>	<u>Receivable</u>	<u>Allowance</u>	<u>Net</u>
General	\$ 91,391	\$ 17,841	\$ 73,550
Garbage	12,629	-	12,629
Electric	64,378	-	64,378
Water	16,782	-	82
Sewer	34,643	-	34,643

The allowance is established, as accounts are deemed uncollectible. Delinquent personal property taxes are deemed uncollectible at rates of 10%, 40%, 70%, and 100% when they become 1, 2, 3, and 4 or more years delinquent respectively.

NOTE E - RESTRICTED ASSETS

The assets consist of the following cash and short-term investments:

General Fund

The fund balance has been reserved and restricted funds have been established for capital expenditures as follows:

Investments \$ 33,774

NOTES TO FINANCIAL STATEMENTS (continued)

Sewer Fund

In connection with construction and financing of a sewer system capital improvement project, the following restricted bank accounts have been established:

	Balance at <u>June 30, 2004</u>
1. Bond and Interest Redemption Fund	233,455
To receive sewer assessment funds designated to be used solely for the retirement of revenue bonds and related interest charges.	
2. Bond Reserve Account	110,482
To receive a minimum of \$26,000 per year, commencing July 1, 2000 until a balance of \$ 260,000 is achieved. These funds shall be used solely for the payment of bond principal and interest as to which these would otherwise be default.	
3. Repair, Replacement, and Improvement	57,227
To receive a minimum of \$26,000 per year, commencing July 1, 2000, less the amount deposited into the bond reserve account. These funds shall be used only for the repair, replacement, or improvement to the sewer system. If necessary, these funds can also be used for payment of bond principal and interest.	
	<hr/> <u>\$ 401,164</u>

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE F - INTERFUND ACTIVITIES

The amounts of interfund receivables and payables at June 30, 2004, were as follows:

Receivable		Payable	
Fund	Amount	Fund	Amount
General	\$ 136,851	Electric	\$ 49,971
		Sewer	2,982
		Water	1,154
		Cemetery	21,997
		Motor Pool	60,747
			136,851
Library	2,335	General	2,335
Building Inspector	1,491	General	1,491
Electric	10,412	Water	9,900
		Sewer	512
			10,412
Water	73,346	Sewer	2,603
		General	70,743
			73,346
Garbage	29,718	General	29,718
Motor Pool	65,736	Sewer	3,847
		Garbage	42,373
		Cemetery	15,101
		Water	4,415
			65,736
	<u>\$ 319,889</u>		<u>\$ 319,889</u>

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE F- INTERFUND ACTIVITIES (continued)

Operating transfers between the various funds of the City for the year ended June 30, 2004, were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
General	\$ 18,169	Electric	\$ 17,169
		Water	<u>1,000</u>
			18,169
Building Inspector	4,000	General	4,000
Library	35,000	General	35,000
Local Street	53,519	Major Street	53,519
Water	<u>60,000</u>	General	<u>60,000</u>
	<u>\$ 170,688</u>		<u>\$ 170,688</u>

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE G - PROPERTY, PLANT, AND EQUIPMENT

The detailed balances of major classes of assets of the proprietary funds by nature and function are as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u>
<u>Enterprise Funds</u>				
Electric Fund:				
Substation	\$ 48,700	\$ 72,588	\$ -	\$ 121,288
Warehouse	224,090	-	-	224,090
Miscellaneous	18,141	-	-	18,141
Meters	49,119	-	-	49,119
Operations	259,980	-	-	259,980
Street Lights	48,256	-	-	48,256
Transformers	62,459	-	-	62,459
Lines	282,953	-	-	282,953
Service	108,914	-	-	108,914
	<u>1,102,612</u>	<u>72,588</u>	<u>-</u>	<u>1,175,200</u>
Water Fund:				
Equipment	804,932	-	-	804,932
Meters	28,773	-	-	28,773
Service	32,954	-	-	32,954
Distribution	415,229	-	-	415,229
Hydrants	24,251	-	-	24,251
Reservoir	54,017	-	-	54,017
	<u>1,360,156</u>	<u>-</u>	<u>-</u>	<u>1,360,156</u>
Sewer Fund:				
Construction in progress	10,493,351	31,360	-	10,524,711
Collection	636,907	-	-	636,907
Lift Station	833	-	-	833
Catch Basins	20,087	-	-	20,087
Lagoon	166,515	-	-	166,515
Services	13,791	-	-	13,791
Equipment	1,469	-	-	1,469
	<u>11,332,953</u>	<u>31,360</u>	<u>-</u>	<u>11,364,313</u>
Accumulated Depreciation:				
Electric Fund	573,044	35,256	-	608,300
Water Fund	430,898	40,804	-	471,702
Sewer Fund	552,197	125,412	-	677,609
	<u>1,556,139</u>	<u>201,472</u>	<u>-</u>	<u>1,757,611</u>
<u>Internal Service Fund</u>				
Equipment	\$ 1,420,189	\$ 22,077	\$ -	\$ 1,442,266
Accumulated Depreciation	1,061,325	62,708	-	1,124,033

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE G - PROPERTY, PLANT, AND EQUIPMENT (continued)

A summary of changes in the general fixed assets is as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u>
Land	\$ 377,331	\$ -	\$ -	\$ 377,331
Buildings	621,488	-	-	621,488
Improvements	783,800	-	-	783,800
Equipment	<u>519,338</u>	<u>-</u>	<u>-</u>	<u>519,338</u>
	\$ 2,301,957	\$ -	\$ -	\$ 2,301,957

Accumulated Depreciation:

Land	-	-	-	-
Buildings	481,465	6,365	-	487,830
Improvements	333,806	23,904	-	357,710
Equipment	<u>388,210</u>	<u>19,594</u>	<u>-</u>	<u>407,804</u>
	\$ 1,203,481	\$ 49,863	\$ -	\$ 1,253,344

Depreciation expense was charged to governmental activities as follows:

General government	10,576
Public safety	19,258
Highways and streets	7,426
Public works	286
Community services	3,658
Parks and recreation	<u>8,659</u>
	<u>\$ 49,863</u>

The general fixed assets as of June 30, 2004, are distributed in the following locations:

City Buildings	-	357,572	264,400	101,222	723,194
Public Works	-	27,490	7,142	99,689	134,321
City property	-	24,758	-	4,428	29,186
Fire Department	-	58,427	-	271,328	329,755
Library	-	46,658	-	12,187	58,845
Police Department	-	-	-	22,121	22,121
Cemetery	-	-	35,921	5,088	41,009
Park	-	106,583	104,454	3,275	214,312
Industrial Park	-	-	371,319	-	371,319
Landfill	-	-	564	-	564
	<u>\$ 377,331</u>	<u>\$ 621,488</u>	<u>\$ 783,800</u>	<u>\$ 519,338</u>	<u>\$ 2,301,957</u>

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE H - COMPENSATED ABSENCES

Employees earn one day of sick leave per month with no maximum accumulation. Upon retirement, employees are entitled to payment (calculated with regard to years of service) for up to a maximum of 120 days, of unused sick leave. The estimated value of unrecorded sick leave at June 30, 2004, was \$123,962

In addition, employees earn vacation in amounts that vary with the length of service. The employees are required to use their vacation annually, from the initial date of employment. As of June 30, 2004, unused vacation pay amounted to \$27,304.

NOTE I – DEFEASED DEBT

On May 22, 2000, the City issued sewage disposal system revenue and revenue refunding bonds of \$ 4,773,000 with an interest rate of 4.5%. Proceeds of \$ 719,412 from this bond issue were used to advance refund general obligation limited tax bonds with interest rates of 4.58% to 5.96% and a par value of \$ 695,000. The general obligation limited tax bonds mature in increments through July 1, 2006, and are callable on July 1, 2003.

The net proceeds of \$ 718,362, after paying escrow fees of \$1,050, were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the general obligation limited tax bonds are called on July 1, 2003. The advance refunding met the requirements of an in-substance debt defeasance and the general obligation limited tax bonds were removed from the City's general long-term debt account group.

As a result of the advance refunding, the City reduced its total debt service requirements by \$ 845,732, which resulted in an economic loss (difference between the present value of the debt service payments on the old and new debt) of \$ 211.

NOTE J – SUMMARY OF CHANGES IN LONG-TERM DEBT

A summary of changes in the City's long-term debt is as follows:

	Balance June 30, 2003	Additions	Retired	Balance June 30, 2004
Sewage Disposal System Revenue and Revenue Refunding Bonds	\$ 4,634,000	\$ -	\$ 51,000	\$ 4,583,000
Compensated Absences	149,252	2,014	-	151,266
	<u>\$ 4,783,252</u>	<u>\$ 2,014</u>	<u>\$ 51,000</u>	<u>\$ 4,734,266</u>

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE K - EMPLOYEE RETIREMENT PLAN

The City is a participating member of the Michigan Municipal Employees Retirement System (MERS) which covers substantially all of the City employees. The plan requires employees' contributions equal to specified percentages of earnings and the City makes annual contributions to the plan equal to the amounts accrued for pension expense. Detailed information concerning the plan was not available, accordingly, various disclosures, required by GASB Statement No.25 and No. 27, are not included herein.

NOTE L - LONG-TERM DEBT

The general long-term debt of the City consists of the following sewage disposal system revenue and revenue refunding bonds:

Date of issue – May 22, 2000

Amount of original issue - \$ 4,773,000 (Series A \$ 4,525,000, Series B \$ 248,000)

Outstanding at June 30, 2004 - \$ 4,583,000

Interest rate - 4.5%

Interest dates – June 1 and December 1

The repayment schedule is as follows:

<u>Fiscal year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 53,000	\$ 206,235	\$ 259,235
2006	56,000	203,850	259,850
2007	58,000	201,330	259,330
2008	60,000	198,720	258,720
2009	63,000	196,020	259,020
2010-2014	361,000	934,900	1,295,900
2015-2019	450,000	846,000	1,296,000
2020-2024	562,000	734,985	1,296,985
2025-2029	700,000	596,745	1,296,745
2030-2034	874,000	424,260	1,298,260
2035-2039	1,089,000	209,205	1,298,205
2040	257,000	11,565	268,565
	<u>\$ 4,583,000</u>	<u>\$ 4,763,815</u>	<u>\$ 9,346,815</u>

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE M – SEWER PROJECT

On November 9, 1992, the City established the Sewer System Capital Improvement Fund to complete the City's sewer system evaluation study, facility plan, and construction of the wastewater collection, transportation, and treatment system. Revenues are derived from existing sewer customers through a special assessment billed to the customers based on a fee schedule adopted by the City Council.

Funding for this project consisted of the following:

Sewage disposal system revenue and revenue refunding bonds (federal)	\$ 4,773,000
Water and waste system grants (federal)	4,576,000
Customer assessments	<u>1,491,784</u>
	<u>\$ 10,840,784</u>

Interest during the construction phase was not capitalized in accordance with terms of the bonds. Effective July 1, 2002, all assets and liabilities of the capital projects fund were transferred to and became part of the sewer fund. The surplus of \$ 449,075 was recorded as a residual equity transfer from the capital projects fund to the sewer fund.

The City is in the process of allocating the construction costs to the various plant assets and determining useful lives. Depreciation for 2003-04 has been estimated @ 1%. Abandoned and replaced assets will be removed from the accounts at the time the construction costs are allocated.

NOTE N – RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City has obtained coverage from a commercial insurance company. The City has comprehensive general liability coverage and has obtained worker' compensation coverage.

All risk management activities are accounted for in the financial statements of the City. Expenses and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

Management estimates that the amount of actual or potential claims against the City as of June 30, 2004, will not materially affect the financial condition of the City. Therefore, the financial statements contain no provision for estimated claims. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTES TO FINANCIAL STATEMENTS (continued)

NOTE O – DISASTER

In April of 2002, portions of the City were flooded by high waters caused by the unusually rapid thaw of winter snow. The area was declared a disaster area and is receiving federal and state assistance, including the Federal Emergency Management Agency (FEMA).

Eligible costs incurred by the City prior to June 30, 2004 amounted to \$648,763. FEMA has reimbursed the City for \$486,572 (75%) of these costs and the state has provided a matching share of \$81,095 (12.5%). The City's projected cost resulting from this disaster has been estimated at \$1,290,755. The majority of these costs are to the City's road systems. The FEMA grant period is effective from April 10, 2002 through September 30, 2004. All repairs are anticipated to be completed during this period.

NOTE P – COMMITMENTS AND CONTINGENCIES

In normal course of operations, the City participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of that is to ensure compliance with the specific conditions of the grant or loan. Any liability for reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

OTHER FINANCIAL INFORMATION

CITY OF WAKEFIELD, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
CEMETERY FUND
Year ended June 30, 2004

	<u>Budget</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
Revenues:				
Local sources:				
Grave openings	\$ 10,000	\$ 10,000	\$ 7,750	\$ (2,250)
Mausoleum storage	100	100	75	(25)
Perpetual care	2,000	2,000	2,475	475
Lot use	2,000	2,000	1,000	(1,000)
Interest	500	500	1,210	710
	14,600	14,600	12,510	(2,090)
Intermediate sources:				
Township services	4,125	4,125	4,125	-
	18,725	18,725	16,635	(2,090)
Expenditures:				
Community services:				
Payroll	14,500	14,500	12,640	1,860
Supplies and repairs	700	700	635	65
Administration	1,800	1,800	825	975
Rental	4,000	4,000	1,360	2,640
New equipment	-	-	-	-
	21,000	21,000	15,460	5,540
Excess of Revenues over (under) Expenditures	(2,275)	(2,275)	1,175	3,450
Other Financing Sources (Uses):				
Operating transfers in	-	-	-	-
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(2,275)	(2,275)	1,175	3,450
Fund balance at beginning of year	9,310	9,310	9,310	-
Fund balance at end of year	<u>\$ 7,035</u>	<u>\$ 7,035</u>	<u>\$ 10,485</u>	<u>\$ 3,450</u>

CITY OF WAKEFIELD, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
LOCAL STREET FUND
Year ended June 30, 2004

	<u>Budget</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
Revenues:				
Local sources:				
Charges for services	\$ -	\$ -	\$ 544	544
Interest	2,000	2,000	832	(1,168)
	2,000	2,000	1,376	(624)
State sources:				
Gas and weight tax	81,904	81,904	83,227	1,323
Other	2,000	2,000	6,131	4,131
	83,904	83,904	89,358	5,454
Federal sources	-	192,183	147,489	(44,694)
	85,904	278,087	238,223	(39,864)
Expenditures:				
Highways and streets:				
Construction	22,000	251,500	250,853	647
Routine maintenance	46,400	46,400	25,580	20,820
Traffic services	1,900	1,900	619	1,281
Snow and ice removal	40,750	40,750	31,679	9,071
Administrative	15,600	15,600	6,614	8,986
	126,650	356,150	315,345	40,805
Excess of Revenues over (under) Expenditures	(40,746)	(78,063)	(77,122)	941
Other Financing Sources (Uses):				
Operating transfers in	51,719	51,719	53,519	1,800
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	10,973	(26,344)	(23,603)	2,741
Fund balance at beginning of year	149,843	149,843	149,843	-
Fund balance at end of year	<u>\$ 160,816</u>	<u>\$ 123,499</u>	<u>\$ 126,240</u>	<u>\$ 2,741</u>

CITY OF WAKEFIELD, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
MAJOR STREET FUND
Year ended June 30, 2004

	<u>Budget</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
Revenues:				
Local sources:				
Charges for services	\$ -	\$ -	\$ 704	704
Interest	<u>3,000</u>	<u>3,000</u>	<u>3,241</u>	<u>241</u>
	3,000	3,000	3,945	945
State sources:				
Gas and weight tax	206,876	206,876	214,076	7,200
Trunkline maintenance	38,950	38,950	34,235	(4,715)
Other state grants	<u>5,000</u>	<u>5,000</u>	<u>15,467</u>	<u>10,467</u>
	250,826	250,826	263,778	12,952
Federal sources	<u>-</u>	<u>171,435</u>	<u>81,851</u>	<u>(89,584)</u>
	253,826	425,261	349,574	(75,687)
Expenditures:				
Highways and streets:				
Construction	-	196,000	195,668	332
Routine maintenance	68,650	68,650	10,319	58,331
Traffic services	2,100	2,100	1,781	319
Snow and ice removal	76,500	76,500	63,896	12,604
Administrative	13,600	13,600	6,854	6,746
State trunkline maintenance	<u>38,950</u>	<u>38,950</u>	<u>24,034</u>	<u>14,916</u>
	<u>199,800</u>	<u>395,800</u>	<u>302,552</u>	<u>93,248</u>
Excess of Revenues over (under) Expenditures	54,026	29,461	47,022	17,561
Other Financing Sources (Uses):				
Operating transfers in	-	-	-	-
Operating transfers (out)	<u>(51,719)</u>	<u>(51,719)</u>	<u>(53,519)</u>	<u>(1,800)</u>
	<u>(51,719)</u>	<u>(51,719)</u>	<u>(53,519)</u>	<u>(1,800)</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	2,307	(22,258)	(6,497)	15,761
Fund balance at beginning of year	<u>221,889</u>	<u>221,889</u>	<u>221,889</u>	<u>-</u>
Fund balance at end of year	<u>\$ 224,196</u>	<u>\$ 199,631</u>	<u>\$ 215,392</u>	<u>\$ 15,761</u>

CITY OF WAKEFIELD, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
LIBRARY FUND
Year ended June 30, 2004

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Local sources:				
Charges for service	\$ 200	\$ 200	\$ 39	\$ (161)
Interest	100	100	67	(33)
Other	<u>1,700</u>	<u>1,700</u>	<u>1,519</u>	<u>(181)</u>
	2,000	2,000	1,625	(375)
Intermediate sources:				
County penal fines	13,500	13,500	15,702	2,202
Township services	<u>2,075</u>	<u>2,075</u>	<u>2,060</u>	<u>(15)</u>
	15,575	15,575	17,762	2,187
State sources:				
State aid	<u>2,570</u>	<u>2,570</u>	<u>1,385</u>	<u>(1,185)</u>
	20,145	20,145	20,772	627
Expenditures:				
Community services:				
Payroll	45,720	45,720	42,663	3,057
Supplies	900	900	85	815
Administration	4,000	4,000	2,780	1,220
Additions and betterments	1,000	1,000	-	1,000
Books	8,000	8,000	9,038	(1,038)
Periodicals	1,000	1,000	652	348
Memberships	1,500	1,500	693	807
Utilities	<u>1,500</u>	<u>1,500</u>	<u>1,563</u>	<u>(63)</u>
	<u>63,620</u>	<u>63,620</u>	<u>57,474</u>	<u>6,146</u>
Excess of Revenues over (under) Expenditures	(43,475)	(43,475)	(36,702)	6,773
Other Financing Sources (Uses):				
Operating transfers in	<u>40,475</u>	<u>40,475</u>	<u>35,000</u>	<u>(5,475)</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(3,000)	(3,000)	(1,702)	1,298
Fund balance at beginning of year	<u>1,725</u>	<u>1,725</u>	<u>1,725</u>	-
Fund balance at end of year	<u>\$ (1,275)</u>	<u>\$ (1,275)</u>	<u>\$ 23</u>	<u>\$ 1,298</u>

CITY OF WAKEFIELD, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
BUILDING INSPECTOR FUND
Year ended June 30, 2004

	<u>Budget</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
Revenues:				
Local sources:				
Building permits	<u>\$ 2,000</u>	<u>\$ 2,000</u>	<u>\$ 1,945</u>	<u>\$ (55)</u>
	2,000	2,000	1,945	(55)
Expenditures:				
Community services:				
Contract service	5,500	5,500	5,550	(50)
Miscellaneous	<u>500</u>	<u>500</u>	<u>490</u>	<u>10</u>
	<u>6,000</u>	<u>6,000</u>	<u>6,040</u>	<u>(40)</u>
Excess of Revenues over (under) Expenditures	(4,000)	(4,000)	(4,095)	(95)
Other Financing Sources (Uses):				
Operating transfers in	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>	<u>-</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	-	-	(95)	(95)
Fund balance (deficit) at beginning of year	<u>1,586</u>	<u>1,586</u>	<u>1,586</u>	<u>-</u>
Fund balance at end of year	<u><u>\$ 1,586</u></u>	<u><u>\$ 1,586</u></u>	<u><u>\$ 1,491</u></u>	<u><u>\$ (95)</u></u>

CITY OF WAKEFIELD, MICHIGAN
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND
Year ended June 30, 2004

	Budget		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
General government:				
Mayor and council	\$ 8,000	\$ 8,000	\$ 7,630	\$ 370
Clerk	56,800	56,800	42,164	14,636
Code enforcement	2,500	2,500	3,072	(572)
Manager	60,300	60,300	62,349	(2,049)
Elections	4,300	4,300	2,724	1,576
Assessing	12,300	12,300	12,627	(327)
Attorney	8,000	8,000	9,741	(1,741)
Audit	7,700	7,700	7,700	-
Board or review	1,475	1,475	840	635
Treasurer	70,700	75,700	67,871	7,829
City buildings	17,000	17,000	29,239	(12,239)
Insurance	50,600	50,600	48,122	2,478
Fringe benefits	138,000	138,000	243,795	(105,795)
Other	16,883	33,316	39,914	(6,598)
	454,558	475,991	577,788	(101,797)
Public safety:				
Police	139,241	139,241	139,462	(221)
Fire	27,500	27,500	29,180	(1,680)
Crossing guard	2,000	2,000	2,113	(113)
	168,741	168,741	170,755	(2,014)
Highways and streets:				
Street lighting	22,000	22,000	25,591	(3,591)
Public works:				
Garage and warehouse	50,100	50,100	50,347	(247)
Administration	16,600	16,600	19,551	(2,951)
Other	-	31,000	31,352	(352)
	66,700	97,700	101,250	(3,550)
Parks and recreation	54,500	122,045	110,293	11,752
	<u>\$ 766,499</u>	<u>\$ 886,477</u>	<u>\$ 985,677</u>	<u>\$ (99,200)</u>

CITY OF WAKEFIELD, MICHIGAN
STATEMENT OF REVENUE - BUDGET AND ACTUAL
GENERAL FUND
Year ended June 30, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
Local Sources:				
Property taxes	\$ 328,867	\$ 328,867	\$ 327,866	\$ (1,001)
Rentals	9,650	9,650	4,985	(4,665)
Park income	28,200	28,200	25,194	(3,006)
Interest income	3,000	3,000	5,381	2,381
Insurance refunds	4,000	4,000	-	(4,000)
Other	47,450	60,111	39,436	(20,675)
	421,167	433,828	402,862	(30,966)
Intermediate sources:				
Township services	8,000	8,000	8,148	148
State sources:				
Sales tax	322,249	292,081	289,129	(2,952)
Park Grant	-	69,375	68,746	(629)
Other	5,460	8,837	7,476	(1,361)
	327,709	370,293	365,351	(4,942)
Federal sources:				
Federal Emergency Management	-	-	76,370	76,370
	<u>\$ 756,876</u>	<u>\$ 812,121</u>	<u>\$ 852,731</u>	<u>\$ 40,610</u>

CITY OF WAKEFIELD, MICHIGAN
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS
 Year ended June 30, 2004

	Special Revenue Funds				Total Other Governmental Funds
	Building Inspector Fund	Library Fund	Cemetery Fund	Garbage Fund	
Revenues:					
Local sources:					
Charges for services	\$ 1,945	\$ 39	\$ 11,300	\$ 122,814	\$ 136,098
Interest	-	67	1,210	-	1,277
Other	-	1,519	-	-	1,519
Intermediate sources	-	17,762	4,125	-	21,887
State sources	-	1,385	-	-	1,385
	1,945	20,772	16,635	122,814	162,166
Expenditures:					
Community services	6,040	57,474	15,460	134,038	213,012
	6,040	57,474	15,460	134,038	213,012
Excess of Revenues over (under) expenditures	(4,095)	(36,702)	1,175	(11,224)	(50,846)
Other Financing Sources (Uses):					
Operating transfers in	4,000	35,000	-	-	39,000
Operating transfers (out)	-	-	-	-	-
	4,000	35,000	-	-	39,000
Excess of Revenues and Other Sources over (under) expenditures and other uses	(95)	(1,702)	1,175	(11,224)	(11,846)
Fund balance - beginning of year (deficit)	1,586	1,725	9,310	3,623	16,244
Fund Balance - end of year	\$ 1,491	\$ 23	\$ 10,485	\$ (7,601)	\$ 4,398

CITY OF WAKEFIELD, MICHIGAN
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2004
Special Revenue Funds

	Building Inspector Fund	Library Fund	Cemetery Fund	Garbage Fund	Totals Other Governmental Funds
ASSETS					
Cash	\$ -	\$ 1,462	\$ 48,121	\$ -	\$ 49,583
Accounts receivable	-	-	-	11,776	11,776
Taxes receivable	-	-	-	853	853
Due from other funds	1,491	2,335	-	29,718	33,544
	<u>\$ 1,491</u>	<u>\$ 3,797</u>	<u>\$ 48,121</u>	<u>\$ 42,347</u>	<u>\$ 95,756</u>
LIABILITIES					
Vouchers payable	\$ -	\$ 3,774	\$ 538	\$ 7,575	\$ 11,887
Due to other funds	-	-	37,098	42,373	79,471
	-	3,774	37,636	49,948	91,358
EQUITY					
Fund balance (deficit):					
Unreserved	1,491	23	10,485	(7,601)	4,398
	<u>1,491</u>	<u>23</u>	<u>10,485</u>	<u>(7,601)</u>	<u>4,398</u>
	<u>\$ 1,491</u>	<u>\$ 3,797</u>	<u>\$ 48,121</u>	<u>\$ 42,347</u>	<u>\$ 95,756</u>

CITY OF WAKEFIELD, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GARBAGE FUND
Year ended June 30, 2004

	<u>Budget</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Local sources:				
Landfill fees	\$ 126,000	\$ 126,000	\$ 111,438	\$ (14,562)
Garbage bags	11,000	11,000	11,376	376
	137,000	137,000	122,814	(14,186)
Expenditures:				
Community services:				
Payroll	36,175	36,175	40,219	(4,044)
Recycle	1,300	1,300	415	885
Garbage bags	8,500	8,500	11,544	(3,044)
Landfill	71,000	71,000	75,829	(4,829)
Administration	3,500	3,500	1,701	1,799
Rental	21,000	21,000	4,330	16,670
	141,475	141,475	134,038	7,437
Excess of Revenues over (under) Expenditures	(4,475)	(4,475)	(11,224)	(6,749)
Other Financing Sources (Uses):				
Operating transfers in	-	-	-	-
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(4,475)	(4,475)	(11,224)	(6,749)
Fund balance at beginning of year	3,623	3,623	3,623	-
Fund balance at end of year	<u>\$ (852)</u>	<u>\$ (852)</u>	<u>\$ (7,601)</u>	<u>\$ (6,749)</u>

CITY OF WAKEFIELD, MICHIGAN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended June 30, 2004

There have been no prior findings to report the status of.

CITY OF WAKEFIELD, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2004

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements of City of Wakefield, Michigan.
2. One reportable condition relating to the audit of the financial statements is reported in the report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with Government Auditing Standards. This condition is not reported as a material weakness.
3. No instances of noncompliance material to the financial statements of City of Wakefield, Michigan, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133
5. The auditor's report on compliance for the major federal award programs for City of Wakefield, Michigan expresses an unqualified opinion on all major federal programs.
6. Audit findings relative to the major federal award programs for City of Wakefield, Michigan are reported in this Schedule.
7. The programs tested as major programs included: U.S. Department of Agriculture, CFDA No. 10.760.
8. The threshold for distinguishing Types A and B programs was \$ 300,000.
9. City of Wakefield, Michigan was determined to be a low-risk auditee.

FINDINGS - FINANCIAL STATEMENT AUDIT

01-1 Fixed Assets

Condition and Criteria: The City has not updated its general fixed assets ledgers or enterprise fund asset ledgers for many years.

Effect: Because of the failure to properly maintain the fixed asset accounts, proper control over these assets cannot be achieved.

Recommendation: It is recommended that all fixed asset accounts be updated and maintained as an integral part of the City's accounting system.

Response: We concur with the recommendation and have begun the process.

FINDINGS AND QUESTIONED COSTS--MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

OTHER REPORTS

DAVID TRACZYK

Certified Public Accountant

327 SILVER STREET
HURLEY, MICHIGAN 54534-1255

Member: AICPA, WICPA

Licensed: MI, WI

Tel: 715-561-3299

Fax: 715-561-4099

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Mayor and Member of the Council
City of Wakefield
Wakefield, Michigan

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Wakefield, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the City of Wakefield, Michigan's, basic financial statements and have issued my report thereon dated February 7, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Wakefield, Michigan's financial statements are free of material misstatement, I performed tests of it's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of noncompliance, which I have reported to management of the City in a separate letter dated February 7, 2005

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Wakefield, Michigan's, internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

Two reportable conditions are described as follows:

04-1 Accounting Records

Condition and Criteria: The City did not maintain adequate records to support the inventory of supplies. Nor did the City maintain adequate records to support the unallocated fringe benefit expenditures.

Effect: Because adequate records were not maintained, the amounts reported as supplies inventory and the unallocated fringe benefit expenditures could not be verified. This resulted in a qualified opinion on the financial statements.

Recommendation: I recommend that the accounting personnel receive proper training and supervision.

Response: We concur with the recommendation and have retained additional help.

04-2 Fixed Assets

Condition and Criteria: The City has not updated its general fixed assets ledgers or enterprise fund asset ledgers for many years.

Effect: Because of the failure to properly maintain the fixed asset accounts, proper control over these assets cannot be achieved.

Recommendation: It is recommended that all fixed asset accounts be updated and maintained as an integral part of the City's accounting system.

Response: We concur with the recommendation and have begun the process.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However of the reportable conditions described above, I consider item 04-1 to be a material weakness. I also noted other matters involving the internal control over financial reporting, which I have reported to management of the City in a separate letter dated February 7, 2005

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

DAVID TRACZYK

Certified Public Accountant

327 SILVER STREET
HURLEY, MICHIGAN 54534-1255

Member: AICPA, WICPA

Licensed: MI, WI

Tel: 715-561-3299

Fax: 715-561-4099

MANAGEMENT LETTER

Mayor and Members of the Council
City of Wakefield, Michigan

I have audited the general purpose financial statements of the City of Wakefield, Michigan, as of and for the year ended June 30, 2004, and have issued my report thereon dated February 7, 2005

In planning and performing my audit of the financial statements, I considered its internal control structure in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control structure.

During the course of my audit, certain matters have come to my attention which I feel should be addressed by management. These matters are not considered to be material weaknesses under standards established by the American Institute of Certified Public Accountants. However, they are areas in which management may improve its accounting and reporting system.

The following items have been discussed during the course of my audit, with the management of the City:

1. Property ledger.

The general fixed assets property ledger has not been brought up-to-date and reconciled to the current balance for several years. This condition was also indicated in the prior year management letter.

Recommendation

I recommend that the ledger be brought up-to-date and recorded at least annually thereafter.

2. Accumulated Fund Deficit

As explained in Note C to the financial statements, the garbage fund ended the year with an accumulated fund deficit of \$7,601.

Recommendation

I recommend that the City approve a deficit elimination plan to address this item.

3. Inventory

Perpetual inventory records were not maintained, nor was a physical count of inventory items taken at year end.

Recommendation

I recommend that proper procedures be established to document the inventory.

4. Fringe Benefit Allocations

The accounting system is designed to document the fringe benefit costs and to allocate those costs along with payroll costs. During the year ended June 30, 2004, the costs were not properly recorded. Therefore, the amount of unallocated costs of \$243,795 could not be verified.

Recommendation

I recommend that the accounting personnel receive proper training and supervision in order to properly account for these costs. The City should also consider preparing and documenting the records necessary to verify these costs.

5. The following items are additional areas in which proper accounting procedures were not followed for the last six months of the fiscal year:

- a. The general ledger was not properly posted.
- b. Trial balances were not prepared until October of 2004. The trial balances were not in balance at that time.
- c. Financial statements were not prepared.
- d. Equipment and other internal charges were not recorded.
- e. Bank accounts were reconciled but did not agree to the general ledger.
- f. Property tax levies and collections were not properly recorded in the accounting records.
- g. The utility accounts receivables were not reconciled to the general ledger.
- h. Interfund accounts were not in balance.
- i. Bank transfers were not properly recorded.
- j. Budget amendments were not reflected in the financial reports.
- k. Disbursements (checks) were manually prepared rather than using the computerized system.

Recommendation

I recommend that the new accounting personnel be properly trained and supervised.

Sincerely,